

Message Text

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PAGE 01 ISLAMA 11208 310635Z

12

ACTION NEA-12

INFO OCT-01 EUR-25 EA-11 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-10 L-03 NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03

SS-20 USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

CEA-02 INT-08 SCEM-02 DRC-01 /209 W

----- 123760

R 290750Z DEC 73

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 2663

INFO AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY JIDDA

AMCONSUL KARACHI

AMCONSUL LAHORE

AMEMBASSY MANILA

AMEMBASSY NEW DELHI

USMISSION OECD PARIS

AMEMBASSY TEHRAN

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MANILA FOR USADB

E.O. 11652: N/A

TAGS: EFIN, ENRG, PK

SUBJ: GOP BALANCE OF PAYMENTS AND OIL PRICES

REF: A) ISLAMABAD 9522 B) ISLAMABAD 10567 (NOTAL)

1. SUMMARY. PRIMIN HAS INDICATED THAT GOP NOW ANTICIPATES FOREIGN EXCHANGE COSTS OF \$300 MILLION FOR IMPORTATION OF POL PRODUCTS IN CY-1974 AS RESULT OF PRICE INCREASES. GOP APPARENTLY CONSIDERING POSSIBLE EFFORT TO OBTAIN PRE-LIMITED OFFICIAL USE

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PAGE 02 ISLAMA 11208 310635Z

FERRED POL PRICE FORMULA FOR LDC'S FROM ARAB STATES.

GOVERNMENT CLEARLY CONCERNED ABOUT POLITICAL IMPLICATIONS OF FURTHER PRICE RISES IN PETROLEUM PRODUCTS. END SUMMARY.

2. GOVERNMENT-CONTROLLED PAK TIMES REPORTED DEC. 27 THAT PRIMIN BHUTTO HAD INDICATED TO PRESS THAT ANNUAL COST OF OIL IMPORTS WOULD RISE TO \$300 MILLION AS RESULT OF DOUBLING OF POL PRICES, IN SPITE OF GOP'S FRIENDLY RELATIONS WITH ARAB STATES. BHUTTO REPORTEDLY INDICATED HE WAS ACTIVELY SEEKING MEANS TO DEAL WITH SITUATION.

3. IN FOLLOW-UP LEAD ARTICLE DEC. 28 ASLAM SHEIKH, ONE OF SENIOR PAK TIMES COMMENTATORS, ALSO CITED \$300 MILLION FIGURE FOR CY-1974 AND STATED THAT CRASH GOP STUDY UNDERWAY TO FIND MEANS OF AVERTING SUCH A HEAVY BURDEN. ARTICLE NOTED THAT RECENT INCREASES IN DOMESTIC PRICES, PARTICULARLY OF POL PRODUCTS, ALREADY EXTREMELY HARD ON CONSUMERS. IT SUGGESTED THAT ADDITIONAL PRICE INCREASES MIGHT HAVE TO BE ABSORBED IN GOP BUDGET THEREBY RESULTING IN REDUCTION OF DEVELOPMENT EXPENDITURES.

4. SHEIKH OBSERVED THAT PAKISTAN HAD NOT BEEN "VERY VOCAL ON THE SUBJECT (OF OIL PRICES) INVOLVING AS IT DOES OUR ECONOMIC TIES WITH BORTHERLY MUSLIM STATES." NOW HOWEVER GOP CONSIDERING SEEKING A FORMULA BY WHICH DEVELOPING COUNTRIES WOULD RECEIVE A PREFERRED PRICE. SHEIKH CONTENTED "SUCH A DIFFERENTIATION IN PRICE . . . HAS A COMPLETE MORAL JUSTIFICIATION AS THE THIRD WORLD HAS LONG BEEN STRIPPED OF ITS RAW MATERIALS AT MISERABLY LOW PRICES AND IMPELLED TO PAY EXHORBITANTLY FOR THE MANUFACTURERS OF THE DEVELOPED WORLD."

5. COMMENT: WE JUDGE PAK ESTIMATE OF BALANCE OF PAYMENTS COSTS TO PAKISTAN TO BE FAIRLY ACCURATE. OUR PREVIOUS CALCULATION OF POL COSTS AT \$92 MILLION FOR FY-1974 (REF A) DID NOT TAKE INTO ACCOUNT MOST RECENT PRICE INCREASES. THESE PLUS NORMAL GROWTH OF REQUIREMENTS SUPPORT ESTIMATE OF POL IMPORT BILL APPROXIMATELY \$300 MILLION FOR CY-1974.

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PAGE 03 ISLAMA 11208 310635Z

6. HIGHER POL PRICES ALSO HAVE IMPACT UPON COST OF ANOTHER MAJOR PAKISTANI IMPORT, FERTILIZER. THIS BROUGHT HOME TO GOP BY TOTAL LACK OF RESPONSE TO RECENT AID FINANCED FERTILIZER TENDERS (REF B). OVERALL THESE TWO ITEMS POL AND FERTILIZER LIKELY TO INCREASE PAKISTAN'S IMPORT BILL AND DEFICIT BY ABOUT \$110 MILLION THIS FY AND \$300 MILLION IN FY-74-75.

7. PRICE INCREASES IN PAKISTAN OVER LAST TWELVE MONTHS
ALREADY OVER 30 PERCENT ACCORDING TO BOTH WHOLESALE PRICE
AND WORKING CLASS COST OF LIVING INDICES. PRIMIN HAS INDICATED THAT HE REGARDS INFLATION AS PAKISTAN'S NUMBER ONE POLITICAL PROBLEM. INCREASES IN LEGAL GASOLINE AND DIESEL PRICES LAST MONTH RESULTING IN INCREASED BUS FARES LED TO RIOTING IN KARACHI. THUS GOP WOULD BE VERY RELUCTANT TO PASS ON LARGE PORTION OF THESE NEW PRICE INCREASES TO CONSUMERS. BYROAD

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